
**PRODUCTIVITY
PRICES & INCOMES:
A GENERAL REVIEW
1967**

**LONDON
HER MAJESTY'S STATIONERY OFFICE 1968**

National Economic Development Office
Millbank Tower, 21-41 Millbank,
London SW1
01-834 3811

SBN 11 700383 2

Foreword

The National Economic Development Office is required (see Cmd 2577, 2639 and 2764) from time to time to submit reports to the National Economic Development Council on the general movement of productivity, prices and incomes. The present report, which takes account of comments and suggestions put forward by members of the Council, covers the year 1967. The Council considered that it should be made generally available.

Contents

	<i>page</i>
<hr/>	
General	
<i>Introduction</i>	1
<i>General background</i>	1
<i>The main economic developments in 1967</i>	1
<i>Government policies</i>	3
<i>Productivity, prices and incomes in 1967</i>	3
Income from employment	
<i>Introduction</i>	9
<i>Wages and salaries in 1967</i>	9
<i>Wages</i>	12
<i>Cost of living sliding scales</i>	13
<i>Wage drift</i>	14
<i>Lowest paid workers</i>	15
<i>Regional earnings</i>	16
<i>Hours of work and holidays</i>	18
<i>Salaries</i>	19
Non-employment incomes	
<i>Introduction</i>	21
<i>Factors affecting non-employment incomes in 1967</i>	21
<i>Self-employment incomes</i>	22
<i>Rent</i>	24
<i>Corporate incomes</i>	25
<i>Public sector</i>	25
<i>Company incomes</i>	26
<i>Other additions to purchasing power</i>	29
Prices	
<i>Introduction and summary</i>	31
<i>The general price level</i>	32
<i>Retail prices</i>	33
<i>Wholesale prices</i>	35
<i>Export prices</i>	39
Productivity	
<i>Introduction</i>	41
<i>National productivity</i>	41
<i>Productivity in manufacturing</i>	43
<i>International comparisons</i>	46

Introduction

1 In the field of productivity, prices and incomes 1967 was a particularly difficult year to interpret. Many of the main statistical indicators were subject to distortions and irregularities caused, for example, by strikes, the Middle East crisis or by the effects of successive phases of the incomes policy. Moreover, some of the most significant economic relationships, such as that between employment and output, for example, behaved very differently from past experience and at this short distance of time it is not possible to say whether these represented a change in the underlying trend or were merely temporary.

2 For all these reasons much of the available evidence must remain circumstantial and any verdicts speculative. Nowhere is this more true than in attempting to identify and make an appraisal of the effects of government policy in the productivity, prices and incomes fields. Even the most obvious measure of the effectiveness of this policy, the movement of employment incomes during the year, cannot be regarded as a straightforward test. It is impossible to separate with any accuracy the impact of policy measures and particular institutional arrangements from the underlying effects of changes in the level of output and pressure of demand, and to measure precisely what the impact was.

3 In this chapter we consider, first, the two main factors which influenced productivity, prices and incomes during 1967, *ie* the general state of the economy and the government's prices and incomes policy, and secondly we outline the main changes which occurred.

General background

The main economic developments in 1967

4 Economic events in 1967 were overshadowed by the persistent balance of payments difficulties culminating in the devaluation of the pound on 18 November. The devaluation came after almost eleven months in which the balance of payments not only failed to move into the long awaited surplus—but actually deteriorated into a substantial deficit.

5 After the low level of economic activity achieved in 1966, 1967 had been expected to show a modest improvement in most of the economic indicators. In his 1967 Budget speech the Chancellor of the Exchequer expected total output to increase by 3 per cent during the year, mainly as the result of an increase in total demand of about £1,000 million by the end of 1967. At the same time, in the belief that the economy was already set on this course of cautious expansion and that the balance of payments situation was likely to be restored to equilibrium by the end of the year, he introduced no major tax changes. In fact, total output increased between the last quarter of 1966 and the last quarter of 1967 by 3.2 per cent, almost exactly as had been expected, but giving an increase between 1966 and 1967 of only 1 per cent. Seasonally adjusted unemployment rose to a peak of 2.4 per cent and averaged 2.2 per cent over the year.

6 Personal disposable income was 3.5 per cent higher than in 1966 and the corresponding increase in real consumer expenditure was 2.0 per cent. The

increase in gross domestic fixed capital formation was 5.4 per cent—considerably more than the increase between 1965 and 1966. The increase, however, took place mainly in the public sector and dwellings; in manufacturing gross fixed capital formation fell by nearly 5 per cent compared with 1966. In aggregate, total demand for resources, at constant prices, went up by about £790 million or 2.2 per cent.

7 The performance of the balance of payments, however, was seriously disappointing. Imports, especially those of manufactured and semi-manufactured goods, increased very rapidly so that in 1967 total UK imports of goods were about 8 per cent higher than in 1966 in both volume and value. Exports, on the other hand, after a strong start in the first quarter of 1967 declined throughout the year and were further depressed by the autumn dock strikes. The volume of total UK merchandise exports was, therefore, 1.8 per cent below the level reached in 1966. As the invisible account showed only a small improvement, the deficit on the current account amounted to £514 million—the worst on record. The net outflow on the long-term capital account was £26 million (the smallest since 1961) giving the total deficit on the basic balance of payments of £540 million, compared with only £133 million in 1966. The deterioration further and very seriously undermined confidence in sterling; and it happened, unlike 1960 and 1964, at a time of a relatively low level of economic activity and rising unemployment.

8 There were, of course, a number of special, unforeseen, factors which adversely affected the balance of payments—although it is now fairly evident that even without these it is unlikely that the desired improvement would have taken place. There was, first, the Middle East war with the subsequent closure of the Suez Canal and the diversion of oil supplies, both of which added to the cost of imports. The dock strikes between September and November affected exports far more than imports. Finally, after several years of rapid expansion the rate of growth of world trade declined considerably between 1966 and 1967*—following the widespread slowing down in the growth of output in the industrial countries.

9 The worsening of the balance of payments and the growing lack of confidence in sterling, which reached serious proportions early in November, led to the decision to devalue the pound by 14.3 per cent from \$2.80 to \$2.40. At the same time a number of internal measures to restrict demand and to cut back government expenditure were introduced: Bank Rate was raised to 8 per cent; hire purchase restrictions were imposed; and the export rebate was to be terminated from 1 April 1968. Other measures, to come into force in the financial year 1968/69, included: an increase in corporation tax to 42½ per cent; major reductions in defence and other public spending; and the withdrawal of s.e.r. premium from all manufacturers outside the Development Areas.

10 Industrial production was stagnant for most of 1967, although mainly as a result of consumer spending it began to pick up in the third quarter and was continuing to rise by the end of the year. The seasonally adjusted trend in unemployment began to turn down after September, following a steady increase during the year, but employment had fallen even more than unemployment had risen and was about half a million lower in June 1967 than it had been a year earlier.

11 To sum up, the general picture for most of the year was one of relatively slow growth, persistent and mounting balance of payments difficulties and a relatively low pressure of domestic demand. From the third quarter onwards

* The increase was only about 5 per cent, compared with around 10 per cent between 1965 and 1966, and around 8 per cent between 1964 and 1965.

demand and output began to recover. Most of the year was characterised by considerable business uncertainty which, however, after devaluation began to be replaced, albeit rather slowly, by a somewhat more optimistic outlook particularly in the field of exports.

Government policies

12 The standstill on incomes and prices which had been imposed in July 1966 ended formally on 1 January 1967, but it continued to affect developments through the implementation of deferred increases during the year. Two further phases of the policy on productivity, prices and incomes operated in 1967. First, there was the period of severe restraint whose criteria were outlined in the White Paper published in November 1966 (Cmd 3150 *Prices and Incomes Standstill: Period of Severe Restraint*). The norm for the annual rate of increase in money incomes per head was to be nil, although increases would be acceptable in certain exceptional cases. The chief amongst these were agreements designed to make a direct contribution to productivity or to improve the standard of living of the lowest paid workers. This phase lasted until 30 June. The second phase, announced in March 1967 in Cmd 3235 (*Prices and Incomes Policy after 30 June 1967*), was one of continued moderation. There was no entitlement to a norm or minimum increase and all increases had to be justified against the criteria which applied before the standstill. In this phase too the criteria for price increases and price reductions were those that had applied before July 1966 but greater emphasis was placed on the need for price reductions.

13 Both phases of the policy involved the voluntary participation of the CMI and the TUC. Throughout the period of severe restraint Part IV of the Prices and Incomes Act of 1966 continued in operation, and when it lapsed in August 1967 Part II of the Act which gave the government powers to require compulsory notification of pay or price increases and to impose standstills on their implementation was activated. Powers were also taken under the 1967 Act to extend the period of standstill from three to six months on the recommendation of the National Board for Prices and Incomes. These broad policies continued to be reinforced during the year by the work and studies of the National Board.

14 The 1967 Budget was essentially a neutral one and there were no major tax changes which affected domestic prices during the year, but price changes elsewhere in the public sector (such as some local authority rent increases) did contribute to pushing up the retail price index where the major increases occurred in housing, fuel and light, and transport costs.

15 The decision to devalue came too late in the year to have a significant effect on costs and prices in 1967 although many import prices rose almost at once.

Productivity, prices and incomes in 1967

16 Following the government's policies in 1966 to reduce the pressure of domestic demand, GDP in real terms rose by only about 1 per cent between 1966 and 1967, and total domestic incomes rose by $4\frac{1}{2}$ per cent. This rise in total money incomes was higher than in the previous year: between 1965 and 1966 they rose by some 4 per cent but between 1960 and 1965 they had increased by an average of about $6\frac{1}{2}$ per cent.

17 Wages and salaries comprise almost the whole of employment incomes, and the total wage and salary bill rose by about 3.3 per cent between 1966 and 1967. Since employment fell by about 2 per cent, average wages and salaries per employee are estimated to have risen by some $5\frac{1}{2}$ per cent. This increase was a little below the average for the period 1960 to 1965 of 5.8 per cent.

Table 1 Summary of main indicators/Percentage changes per annum

	1960 1965	1965 1966	1966 1967
<i>Production</i>			
GDP at constant factor cost	3.2	1.6	1.0
Total employment	0.7	0.1	-1.5
Industrial production	3.2	1.1	-0.1
Manufacturing production	3.5	1.3	-1.1
<i>Productivity</i>			
Total output per employed person	2.5	1.3	2.6
Manufacturing output per employed person	3.2	1.6	1.9
Manufacturing output per operative hour	4.3	4.0	4.1
<i>Prices</i>			
Retail	3.5	3.9	2.5
Wholesale	2.6	3.0	1.6
Export unit values	1.7	3.4	1.7
Import unit values	0.9	1.7	0.1
<i>Incomes</i>			
Total domestic incomes	6.4	4.2	4.5
Gross trading profits	4.3	-4.9	8.4
Weekly wage rates*	4.1	4.7	3.7
Weekly wage earnings*	6.1	5.8	3.9
Average salary earnings (Oct-Oct)	6.0	4.3	4.6
	1960-65	1966	1967
Unemployment % (average annual rate)	1.6	1.4	2.2

* The annual average figures conceal the fluctuations which took place during the two years, especially those resulting from the standstill period. The comparison of data in a post-standstill period with that during the standstill will, therefore, show a faster rate of growth of incomes than a measure which averages out the two phases. For example, taking the changes between the months of October only, the following figures emerge:

	Oct 65-Oct 66	Oct 66-Oct 67
Rates	4.1	5.1
Earnings	4.2	5.8

The pattern of wage rates and earnings movements on a half yearly basis is shown in Chart 4.

Chart 1
Industrial production
and productivity

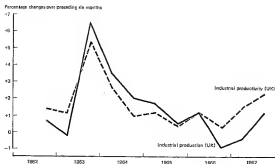


Chart 2
Unemployment and
unfilled vacancies

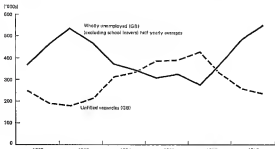


Chart 3 Prices



Table 2 Total domestic incomes in UK

	% changes		1967 £ million	% of total domestic incomes
	1965 1966	1966 1967		
Employment incomes	6.4	3.5	23,265	68.8
Self-employment incomes*	0.4	3.6	2,558	7.6
Rents	8.2	7.5	2,082	6.2
Gross trading profits of companies*	-4.9	8.4	4,688	13.9
Surpluses of public corporations*	3.1	7.5	1,205	3.6
Total domestic incomes	4.2	4.5	33,798	100.0

* Before providing for depreciation but net of stock appreciation

Source: Central Statistical Office

18 As can be seen from Chart 4, which shows the six monthly changes indicated by the April and October figures, the increase in wage rates and earnings in the first half of 1967 was very small, the increase over the preceding half year being only a little over 1 per cent; there was however a sharp rise of about 4 per cent in the second half of the year. By the last quarter of 1967 average earnings of all employees were about 6 per cent above the level of the last quarter of 1966. In real terms, there was actually a slight drop in real earnings in the first part of 1967 when the retail price index rose, but real earnings rose in the months following the ending of the period of severe restraint when the recovery in earnings took place and the rise in retail prices slowed down. Over the year real earnings rose by a little over 3½ per cent.

Chart 4 Hourly wage rates and earnings

Percentage changes over preceding six months (April and October figures)



19 Although the rate of increase in earnings appeared in the latter part of 1967 to have returned to about the rate prevailing before the standstill and severe restraint, it was doing so after a period of levelling off and the total of employment incomes was therefore still considerably lower than it would otherwise have been for 1967.

20 Salary earnings appear to have risen rather more slowly than wages in 1967—by about 4.6 per cent (on a weekly basis) between the October enquiries in 1966 and 1967—compared with the 5.8 per cent increase in wage earnings over the same period. A direct comparison with wage movements cannot be made, however, firstly because of the very great diversity of salary incomes and the lack of statistical coverage, and, secondly, because especially at the middle and upper levels non-monetary elements play an important part in total remuneration. Some private surveys (which are far from comprehensive, however) also suggest that, at the higher levels of salary, increases may have been rather greater than the official data implies.

21 Non-employment incomes rose by nearly 7 per cent in 1967. Professional earnings were up by between 5½ and 6 per cent, and farmers' incomes also rose by about the same amount. In the latter case this rise was a good deal higher than the average for recent years, and since the number of farmers continued to fall the actual average increase per head was probably rather higher than the figures indicate.

22 Gross trading profits of companies (net of stock appreciation), which have since the middle 1950s represented a falling share of total domestic incomes, recovered quite sharply in 1967 to rise by about 8.4 per cent over 1966. In the latter year, however, profits had fallen to below the level they had been in 1964 and the 1967 increase raised them to about 3 per cent above the level they had been at in 1965. (The timing of *vat* payments and receipts contributed to this fluctuation.) Ordinary dividend payments dropped in 1967 by about 4½ per cent, partly as a reflection of the effect of changes in company taxation, but other company dividends and interest payments rose by about 11–12 per cent. Between 1960 and 1965 ordinary dividends rose on average by about 10.6 per cent a year and other company dividends and interest increased by 11.1 per cent.

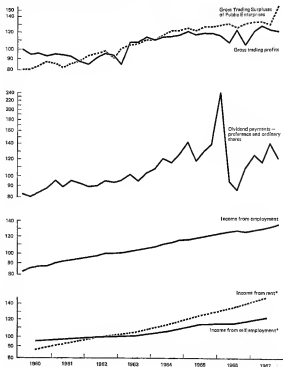
23 Prices were generally a good deal more stable during 1967 than they had been in previous years. (See Chart 3). Retail prices rose by just over 2 per cent between the fourth quarters of 1966 and 1967, with most of the increase occurring in the first half of the year. The major rises were in food, housing, fuel and light and transport. The rise in wholesale prices of about 2 per cent was also less than in previous years, and on the whole, since costs appear to have risen by less than output prices, profit margins increased. Import prices fell in the first half of 1967 but began to rise in the third quarter and the increase began to accelerate sharply after devaluation so that there was a rise of about 4 per cent in total over the year.

24 With the very slow growth of output during the year the level of employment fell sharply. The total increase in output per employed person was about 2.6 per cent; this was about the same as the average for the period 1960–65, and it was unusually high for this particular phase of the cycle. It was influenced mainly by short term factors such as the rapid fall in employment, which may also have involved the temporary or permanent departure from the labour force of some of its less productive members. The increase in output per employed person in the manufacturing sector was about 1.9 per cent, but in terms of output per operative hour in manufacturing the increase was one of about 4 per cent. Increases of this order, at a time of stagnant output cannot yet be regarded,

however, as conclusive evidence of a sustained improvement in industrial efficiency.

25 An important consequence of the apparently unusually fast growth of productivity during 1967 was that unit labour costs rose only very slightly, and in the first half of the year they appear to have fallen when the rise in money incomes was particularly slow and employment was falling sharply.

Chart 5 Growth of factor incomes Seasonally adjusted
Average 1960 iv—1964 iv=100



Source: CSO

*Average 1960-1964=100

Income from employment

Introduction

26 Income from employment accounted for 68.8 per cent of gross domestic income in 1967 compared with 69.5 per cent in 1966.

27 Wages and salaries are the main components of employment incomes (the other components are forces' pay and employers' contributions to national insurance and health and pension funds). The total salaries bill has been growing faster than the total wages bill, for reasons which are referred to below under Salaries. The total wages and salaries bill increased by 3.3 per cent between 1966 and 1967 and, as employment is estimated to have been about 2 per cent lower in 1967 than in 1966, wages and salaries per employee are estimated to have been about 5½ per cent higher. This compares with an estimated average annual increase in wages and salaries per employee of 5.6 per cent between 1960 and 1964, an increase of 6.1 per cent between 1964 and 1965 and an increase of 5.9 per cent between 1965 and 1966.

Wages and salaries in 1967

28 We begin by looking at the general movement of wages and salaries during the year in the light of the influence of prices and incomes policy and the state of the economy and then examine in more detail first the movement of wages and some important aspects of wages, including cost of living sliding scales, wage drift, the earnings of low paid workers, and regional changes in earnings, then changes in working hours and holidays; and finally salaries.

Chart 6 Salary earnings, weekly earnings and weekly wage rates October 1960=100



Source: DEP

29 The principal influences on the level of wages and salaries in 1967 were the state of the economy and the government's prices and incomes policy.

(i) Industrial production was stagnant for three quarters of the year, the level of employment was much reduced compared with 1966 (there were nearly half a million less employees in employment in June 1967 than in June 1966), and unemployment (seasonally adjusted) was rising throughout the first three quarters of the year. The amount of overtime worked in manufacturing industries (in terms of the total number of hours) was about one seventh less in the first half of 1967 than in the first half of 1966 though it was rising again in the last quarter of 1967.

(ii) The prices and incomes policy covered the three phases of (a) the standstill on prices and incomes in the second half of 1966 (which affected, *eg* through deferrals of increases, developments in 1967); (b) the period of severe restraint in the first half of 1967; and (c) the period of moderate restraint, in which no one was entitled to a minimum increase, though there were criteria for exceptional treatment, which lasted from the end of June 1967 until the announcement of a new stage of the policy to operate from 20 March 1968.*

30 The index of average earnings (wages and salaries)† was rising at a rapid rate up to the time of the standstill in July 1966, during a period when there was a very high pressure of demand for labour. During the second half of 1966 the standstill was effective in stabilising wage rates and, with employment and average hours worked falling as a result of the deflationary measures, there was a negligible movement of earnings in this period.

31 Table 3 shows the quarterly movements of the wage and salary bill, of wage rates and of average earnings (wages and salaries) during 1967. There was a slow upward movement of earnings during the first half of 1967, largely due to the coming into effect of settlements deferred during the standstill. In the second quarter average earnings of all employees were 1.7 per cent above the level of the corresponding quarter of 1966, immediately preceding the standstill. A further large number of deferred settlements came into effect in July 1967 when severe restraint ended. The hourly wage rate index rose in this month by 2 per cent, nearly two-thirds of the rise being due to commitments dating from before the standstill.

32 Earnings rose more quickly in the second half of 1967 than they had done in the first half, and in the last quarter of the year were nearly 6 per cent above the level of the last quarter of 1966.

33 Real earnings (measured by relating the index of average earnings of all employees to the index of retail prices) were increasing up to the time of the standstill; they then declined slightly up the second quarter of 1967 (*ie* during the standstill and the severe restraint periods) but rose again sharply in the second half of the year.

* White Paper, *Productivity, Prices and Incomes Policy in 1968 and 1969*, Cmd 3590, April 1968.

† Published monthly by the Department of Employment and Productivity, seasonally adjusted. The index is based on returns from about 7,500 firms, and wages and salaries are not distinguished. Part-time workers are included. It does not distinguish between men and women and relates only to Great Britain. Because of the short period for which the index has been in existence the Department of Employment and Productivity has expressed caution about the reliability of the seasonal adjustment.

Table 3 Wage rates and wage and salary earnings

	Unemployment* Per cent	Wage and salary bill† £m	Weekly wage rates‡ %	Hourly wage rates‡ %	Average earnings (wages and salaries)** %
1965 1st half	1.3	9,326	2.3	3.3	4.7
2nd half	1.3	9,674	2.3	3.5	3.7
1966 1st half	1.2	10,053	2.7	3.7	3.9
2nd half	1.6	10,107	0.6	0.7	0.3
1967 1st half	2.0	10,259	1.9	2.0	1.9
2nd half	2.3	10,571	3.9	4.0	3.7
1967 i	1.9	5,088	1.1	1.2	0.0
ii	2.2	5,171	0.7	0.8	1.9
iii	2.4	5,229	2.6	2.8	2.6
iv	2.3	5,342	1.3	1.2	1.1

* Wholly unemployed, G8, excluding school-leavers, seasonally adjusted; average rate for the period

† UK, seasonally adjusted

‡ Manual Workers, UK

** G8, seasonally adjusted

†† December index figures - June index figure and June index figure + December index figure as appropriate. Correspondingly for quarterly changes.

Sources: Department of Employment and Productivity; CSO

34 During the year in which they were operative, therefore, both the standstill and severe restraint, strongly reinforced by the effects of the other deflationary measures, held back the rise in wages and salaries and temporarily depressed real incomes. In the latter part of 1967, however, money incomes were growing rapidly again, though in part this reflected increases in wages and salaries which had been deferred during the standstill and severe restraint period. The rise in incomes, moreover, was clearly related to the improvement in the production and employment situation towards the end of the year.

Table 4 Real wages and salaries/Percentage changes

	1965iv 1966 ii	1966 ii 1966iv	1966iv 1967 ii	1967 ii 1967iv
Retail price index*	2.7	1.1	1.4	0.7
Average earnings of all employees (wages and salaries)†	4.0	0.5	1.2	4.6
Real earnings of all employees (wages and salaries)	1.3	-0.6	-0.2	3.9

* UK

† G8

Source: DSEP

Wages

35 Between October 1966 and October 1967 average weekly earnings of manual workers (all male and female full-time workers covered by the Department of Employment and Productivity's twice-yearly enquiry)* rose by 5.8 per cent. The greater part of this increase (4 per cent) came in the second six-month period (April to October 1967). The whole period covered included two and a half months of the standstill and the whole of the severe restraint period, as well as four and a half months after the end of severe restraint. Considering this, and the relatively high level of unemployment prevailing over the period, the increase in earnings might be regarded as surprisingly high; but it has to be recalled that earnings in October 1966 were depressed by the early effects of the 'squeeze' and the standstill, and were then only 4.2 per cent above the level of a year before. Moreover, deferred wage rate increases gave a boost to earnings during 1967. Taking the two year period, October 1965 to October 1967, the increase was 10.2 per cent, or a rate of 5.0 per cent a year. This can be compared with the increase of 8.5 per cent between October 1964 and October 1965.

36 What happened to manual workers' earnings during the early part of the 'squeeze' is best indicated by the figures for particular industries. The average weekly earnings of men in manufacturing industries actually fell by 0.9 per cent between April and October 1966 because of the fall in average hours worked. The sharpness of the fall in earnings is brought out more clearly in the six-monthly inquiry into occupational earnings in certain industries. Weekly earnings of all workers covered by this inquiry (men only) in engineering, ship-building, chemicals and iron and steel were between 2 and 5 per cent lower in January 1967 than in June 1966 as a result of less overtime working, and only in iron and steel had they risen above the June 1966 level by June 1967. Weekly earnings of men in manufacturing generally had more than recovered their level of a year before by April 1967, and they continued to rise between April 1967 and October 1967.† Part, though only part, of this recovery in earnings was due to a rise in hours worked, but for men in manufacturing these were still 0.7 hours per week lower on average than they had been in April 1966. The occupational earnings inquiry shows that average earnings in engineering, chemicals and iron and steel rose by between 3 and 5½ per cent between June 1967 and January 1968.

37 In the standstill period of 1966 wage rates* were stationary. During 1967, however, they rose throughout the year. The rise in weekly rates between December 1966 and June 1967, the severe restraint period, was 1.9 per cent compared with 2.3 per cent and 2.7 per cent in the corresponding periods of 1965 and 1966 respectively. There was a sharp rise in July 1967, however, when the index rose by 1.8 per cent, and the increase during the second half of the year was 3.9 per cent. It seems, however, that the rise in the wage rate index in July exaggerated what was happening to actual wage rates because the increase in minimum earnings levels in engineering, under the terms of agreement (the 1964 package deal), should have applied only to the small proportion of workers whose remuneration was less than the new minima. The report of the NBP1 on

* This enquiry is undertaken in respect of one week in April and one week in October in each year. Weekly earnings are total gross earnings, including payments for overtime, bonuses etc. This enquiry excludes agriculture, coal mining, railways and distribution, some of which are covered by separate enquiries. Docks were also excluded until October 1967.

† The figures for April 1968 show a continuation of the rise.

engineering suggests that the impact of this increase was confined to less than 4 per cent of the adult labour force, and even though there may have been some subsequent action to restore differentials this may not have occurred generally.† 38 By December 1967 weekly wage rates were 5.9 per cent above the level of December 1966. As there was very little reduction in normal weekly hours of work in 1967 (see paras 50-53) hourly rates rose only a little more than weekly rates (by 6.1 per cent); nevertheless, it was a faster rate of increase than in any year since 1960, with the exception of 1965. It should be borne in mind, however, that the movement of wage rates in 1967 was affected by the implementation of settlements that had been deferred from 1966 under the standstill, and the rise in hourly rates by the end of the year is almost exactly in line with the estimate for the period published by the government earlier in the year, in which it was suggested that more than half of the increase would be the result of agreements made before the standstill. A further sharp rise (2.2 per cent) in the hourly wage rate index occurred in January 1968 which was due mainly to the introduction of a new minimum piece-work standard in engineering as the last stage of the 1964 package deal; again, however, this related only to the basic minima.

39 If the movement of the wage rate indices alone is considered, the influence of incomes policy and of the higher level of unemployment on wage rates during 1967 would not appear at first sight to have been very great. It has to be borne in mind, however, that this was in fact the movement over a 17-month period in which, because of deferments, the increases in wages had been bunched towards the end. Expressed at an annual rate the increase in hourly wage rates from July 1966 to December 1967 would be only 4.3 per cent. Moreover, as already mentioned, the wage rate index exaggerated to some extent what happened to actual wage rates.

Cost of living sliding scales

40 During the prices and incomes standstill the operative dates of pay increases which were due under cost-of-living scale arrangements were deferred for six months like those of other existing commitments. In the succeeding severe restraint period the operative dates of increases under these arrangements which were originally due in the first half of 1967 were deferred until at least 1 July. The White Paper Cmd 3150 of November 1966, looking ahead to the period beyond 1 July 1967, stated that it should be generally understood that, if the cost of living was to be stabilised in future, there should not be increases based on automatic cost-of-living sliding scales in addition to negotiated pay increases.

41 As a result of agreements already made, the importance of cost-of-living sliding scales will be very much diminished in future. The most substantial of these arrangements (in terms of the number of workers covered) were in building and civil engineering, and these were due to end in February 1968. After that

* The indices of weekly and hourly wage rates are published monthly. They are based on the recognised full-time basic weekly rates of wages or minimum entitlements and normal weekly hours of work fixed by national collective agreements, arbitration awards or statutory orders in the principal industries and services. The industrial coverage is greater than that of the annual workers' earnings enquiry; both relate to the U.K. For a detailed summary of wage rate movements during each previous year, see the January issues of the Ministry of Labour Gazette (now the Employment and Productivity Gazette).

† See Ministry of Labour Gazette, January 1968; Economic Trends September 1967; and Pay and Conditions of Service of Engineering Workers, NERA Report No 46, December 1967.

there were less than half a million workers covered by such arrangements. In 1967 only 5 per cent of increases made in basic rates or minimum entitlements resulted from sliding scale arrangements, compared with 10 per cent in 1966. The proportion of wage increases resulting from sliding scale arrangements has in the past varied considerably from year to year under the influence of price movements, but however much it varies for this reason in future the proportion can be expected to be low because there are less of these arrangements.

Wage drift

42 For various reasons (which include the effects of workplace bargaining, of technical change and productivity improvements, and of a high demand for labour on what employers are prepared to pay) average earnings have tended over many years to rise at a faster rate than centrally-negotiated wage rates. The change in the gap between earnings and rates represents wage drift. On the basis of the way in which it is measured by the Department of Employment and Productivity (as the difference between the percentage movement in the index of hourly wage rates and in the index of hourly earnings of manual workers, excluding the effect of overtime on earnings), wage drift in the period October 1966–October 1967 appeared to be negative (–0.3 per cent).*

Table 5 Wage drift/Percentage changes in UK

	<i>Oct 1963</i>	<i>Oct 1964</i>	<i>Oct 1965</i>	<i>Oct 1966</i>
	<i>Oct 1964</i>	<i>Oct 1965</i>	<i>Oct 1966</i>	<i>Oct 1967</i>
Average hourly wage rates	5.7	7.3	5.6	5.3
Average hourly earnings excluding the effect of over-time	8.1	9.5	6.5	5.0
Wage drift	2.4	2.2	0.9	–0.3

Source: DFP

43 That wage drift, as measured by the relative movements of the wage rate and earnings indices, should be lower in the latest of these twelve-month periods shown in Table 5 than in the earlier periods is not altogether surprising in view of the sharp fall in the demand for labour during the period. (Unemployment, as measured by the rate for wholly unemployed excluding school-leavers, seasonally adjusted, rose from 1.6 per cent in October 1966 to 2.3 per cent in October 1967.) The method of implementation of the engineering agreement, as it affected the wage rate index (see para 37) could have helped to make the drift figure negative. Some continuing wage drift, however, was to be expected from the productivity improvement which continued during the period and from long-term persisting factors such as the shift of workers to higher paid occupations. The fact that wage drift measured in this way was negative in the latest period does not necessarily mean that the absolute gap between the level of average wage rates and average earnings was reduced.

44 In its Report No 65 on Payment by Results Systems, the National Board for Prices and Incomes, defining and measuring wage drift in a different way (by

* Both the wage rates and the earnings figures for 1966 and 1967 were affected by the deferment of settlements. If there had been no deferments a number of settlements would have been implemented before October 1966 and would have raised the increase in the wage rate index over the period October 1965–October 1967. Wage drift might therefore have been lower than shown for the former period and higher than shown for the latter period.

calculating the annual increase in the 'workplace margin' as a proportion of total earnings, excluding overtime) has estimated a higher annual rate of drift than the Department of Employment and Productivity for the period 1964-66. To the extent that firms are able to bring payment by results systems under control in accordance with the Board's recommendations, drift might be checked. On the other hand, to the extent that productivity agreements become more widespread and the effect of national negotiations is limited to increasing the pay of those on the minima, what is described as drift could become an even more important element in increases in earnings than it has been in recent years. Further consideration will need to be given therefore to the meaning and measurement of wage drift. In view of the importance for incomes policy of knowing how much allowance to make for wage drift (eg when determining appropriate annual increases in the level of average incomes) there is a need for more information about the relationship between wage rates and earnings in particular industries, and the new earnings survey which the Department of Employment and Productivity proposes to undertake should help with this.

Lowest paid workers

45 Since the start of the prices and incomes policy in 1965 low paid workers have been recognised as warranting exceptional treatment. In the policy for the period of severe restraint, an improvement in the standard of living of the worst-off members of the community was stated to be a primary social objective, although it was added that it would be necessary to ensure that any pay increases justified on this ground were genuinely confined to the lowest-paid workers and not passed on to other workers. The White Paper on prices and incomes policy after 30 June 1967 again included, among the circumstances in which increases in incomes could be justified, those where there was a general recognition that existing wage and salary levels were too low to maintain a reasonable standard of living.

46 The National Board for Prices and Incomes indicated in its Second General Report* that it had found the criterion of low pay difficult to apply, and stated that, as the concept of the low paid was a relative rather than an absolute one, what was at issue was the question of differentials. The NBI also, in its Economic Review 1968, indicated that unions had had considerable difficulty in applying a policy which involved a narrowing of differentials. Nevertheless, the NBI expressed the view that for the next phase of incomes policy, after mid-1968, low-paid workers should continue to receive as much preferential treatment as was practicable.

47 There is not enough information available at present to show to what extent the position of low-paid workers has improved relatively to that of other categories of workers under the prices and incomes policy. Some of the principal increases in rates of pay that took place during the period of severe restraint, however, apart from those resulting from previous commitments, were for lower paid workers. These applied particularly to workers in agriculture and sections of the distributive trades, following reports from the National Board for Prices and Incomes. In referring proposed increases in wage rates in these industries to the Board, the government had specifically asked it to have regard to the criterion governing the exceptional treatment of the lowest paid workers.

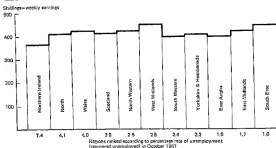
* Report No 40, Second General Report, July 1966 to August 1967; National Board for Prices and Incomes, August 1967, Cmd 3394.

48 It is possible to compare how the average earnings of manual workers in some of the industries with lowest averages have moved compared with the average earnings of manual workers as a whole. Such a comparison over the two year period October 1965 to October 1967 shows that, taking from the 128 industries covered by the six-monthly inquiry the 32 (ie one quarter) with lowest average weekly earnings of men in 1965, twenty had increased their earnings by 1967 by more than the average for all industries while twelve had increased by less than the average. As the National Board for Prices and Incomes pointed out, however, in its Second General Report, the average earnings figures do not show earnings by occupational groups and they give no indication of the ranges of earnings within an industry. Moreover, in order to measure changes in earnings for a basic working week, to take out the effect of overtime, some breakdown of earnings into their components is needed. The new survey of earnings and hours, based on a 1 in 200 sample of all employees in employment, which the Department of Employment and Productivity is to conduct in September 1968 will provide information about the distribution of earnings by industry and by occupation for all groups which are of sufficient size to be represented adequately in the sample.

Regional earnings

49 There are wide variations in the level of average earnings in different regions (see Table 6 and Chart 7). These reflect in part differences in the industrial structure of the regions and also in part the demand for labour in the regions, as indicated by the level of unemployment. High levels of unemployment do not necessarily imply low average earnings levels in a region. Average earnings in Wales, for example, although it is a region of high unemployment, are relatively high because of the high concentration of employment in the steel industry. Nor have high levels of unemployment very obviously limited the rate of increase in earnings in particular regions. In the 18-month period April 1966—October 1967, including the standstill and severe restraint periods, the biggest percentage increases in earnings in the main occurred in the regions with relatively high unemployment.

Chart 7 Regional differences in average weekly earnings (men manual workers) October 1967



Source: DEP

Table 6 Unemployment and earnings by region

Region*	Unemployment† % 1965	Average weekly earnings of manual workers (males), % changes						Oct 1967 x d
		April 1965	April 1966	April 1967	April 1966	Oct 1967	April 1967	
London and South Eastern	0.8	6.9	7.2	2.1				
Eastern and Southern	0.9	6.2	7.8	0.6				
South East							3.6	444 4
East Anglia							4.9	393 9
South Western	1.5	6.1	7.0	0.8			4.0	397 3
Midlands		7.0	6.2	0.7				
West Midlands	0.6						3.2	444 5
East Midlands	0.8						3.7	417 1
Yorkshire and Humberside	1.0	6.8	6.1	2.1			2.9	403 11
North Western	1.5	7.5	6.9	2.1			4.6	420 9
Northern	2.4	8.1	6.7	2.9			3.1	413 1
Scotland	2.8	8.3	9.2	2.2			5.1	415 5
Wales	2.5	6.6	4.0	3.7			3.8	422 10
Northern Ireland	5.9	7.0	9.3	4.4			4.5	367 5
UK	1.4	7.4	7.1	1.6			3.9	427 6

* As from October 1967 the regional analysis of earnings is in respect of the new standard regions (see Ministry of Labour Gazette, January 1966). Because of the revised regional boundaries and because of revised regional weights applied to the industry averages to arrive at the regional averages the figures are not strictly comparable with those for earlier dates but a link has been provided with April 1967. The figures are not seasonally adjusted and it is possible that there may be some seasonal variation between April and October.

† Wholly unemployed, excluding school leavers, as per cent of total employees; average monthly rate.

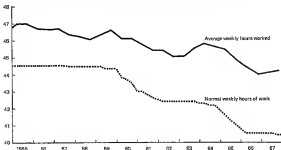
Source: DWP

Hours of work and holidays

50 The government have said, in Cmnd 3150 and 3235, that the country cannot at present afford any further general reduction in the standard working week or general movement towards longer holidays. The TUC have said, in their Economic Review 1968, that while those groups of workers (particularly among the lower paid) who have lagged behind in the move towards the shorter working week and longer holidays are entitled to catch up, it would not be appropriate for unions which have already secured the 40 hour week (or, in the case of non-manual workers, the 35 hour week) and three weeks' non-statutory holidays to seek further improvements in the next phase of incomes policy.

51 The important influence which the round of reductions in normal weekly hours of work had in increasing labour costs in the period between the last quarter of 1964 and the middle of 1966 was emphasised in last year's review.* This round (the second within a ten year period, in the course of which most manufacturing industries reached the 40 hour week) was substantially complete at the time when the standstill was introduced in July 1966. Some further reductions, some of them deferred as a result of the standstill, took effect in both the first and second halves of 1967 but there was no movement towards a further round of hours reductions. In 1967 as a whole only about 800,000 workers were affected by reductions in normal weekly hours of about one hour each compared with about 4,300,000 in 1966. The average length of the normal working week for manual workers at the end of 1967 was 40.5 which was only a very slight change from the figure at the end of 1966.

Chart 8 Hours of work and hours worked—all manual workers



Source: DEP

52 Hours actually worked were affected more by the state of the economy in 1967 than by negotiated reductions in normal hours. Average hours worked by manual workers had declined steadily between April 1964 and April 1966, in parallel with the reduction in normal weekly hours. There was a further slight fall

* Productivity, Prices and Incomes. A General Review 1966, NEDO.

between April and October 1966 but in this period the deflationary July measures were undoubtedly the most important factor. There was a small rise in hours worked in the period October 1966 to April 1967 and a further small rise in the following six months to October 1967. Average hours worked by men manual workers in October 1967 were 46.3 compared with 47.7 in October 1964. The indications from the figures for overtime and short-time working in manufacturing industry are that there was a continuing small rise in hours worked up to the end of the year.

53 There were further small improvements in the provision of paid holidays in 1967. The Department of Employment and Productivity estimate that after these changes about 60 per cent of all manual workers are now entitled to a basic annual holiday of two weeks; about 34 per cent have a basic entitlement of 2.3 weeks; and 6 per cent have three weeks. The period of annual holiday for most workers in Britain is still considerably less than that in some other countries (eg France and Sweden generally 4 weeks; Belgium, Netherlands and Germany at least 3 weeks). The normal working week, however, is shorter in the UK than in several of the countries mentioned, though not France and Germany.

Salaries

54 The criteria for increases in incomes under the prices and incomes policy apply to salaries as to wages. Salaries were subject to the standstill and to severe restraint unless they were paid in the form of regular increments of specified amounts within a predetermined range or scale. As from 30 June 1967, however, after the end of the severe restraint period, managements were able to give salary increases based on added experience, increased responsibility or special effort.

55 The index of average salary earnings rose by 4.6 per cent between October 1966 and October 1967. There is no information beyond that date nor for intermediate dates to show the course of salary movements during the year. It is likely, judging by the movement of the index of average earnings of all employees (wages and salaries), that the greater part of the rise occurred after the end of the severe restraint period and that the rise continued beyond October. Table 7 shows how the index of average salary earnings has moved in the last four years compared with the index of manual workers' weekly earnings and the index of average earnings of all employees.

Table 7 Average earnings of manual workers, salaried employees and all employees/Percentage changes

	<i>Oct 1963</i>	<i>Oct 1964</i>	<i>Oct 1965</i>	<i>Oct 1966</i>
	<i>Oct 1964</i>	<i>Oct 1965</i>	<i>Oct 1966</i>	<i>Oct 1967</i>
Average weekly earnings of manual workers*	8.3	8.5	4.2	5.8
Average salary earnings*	5.6	8.4	4.3	4.6
Average earnings of all employees (wages and salaries)†	7.8	8.0	4.7	5.0

* UK

† Seasonally adjusted, on

Source: D.E.P.

56 Salaries accounted in 1967 for 42 per cent of the total wage and salary bill. Last year's review drew attention to the tendency for the size of the total salary bill to grow relatively to the total wages bill. This tendency is to be explained by the growth of the proportion of administrative, technical and clerical occupations both in the production industries and in the expanding services sector of employment, including particularly office employment.*

57 It was suggested in last year's review that in order to supplement the information available about salaries it would be desirable to show the movement of salaries by different occupational groups, particularly because of the very wide range of income levels which salaries include. Present information distinguishes the earnings of male and female clerical employees and of all male and female salaried employees in one group of industries (mainly the public sector) and of monthly paid and weekly paid male and female administrative, technical and clerical employees in another group of industries (mainly manufacturing). The results of the October 1967 inquiry indicate that over the latest twelve-month period (from October 1966 to October 1967) salary earnings rose faster in manufacturing industries (+5.5 per cent on average for all employees) than in the public sector (+4.2 per cent) and other production industries† (+3.9 per cent).

58 The new survey of earnings and hours which the Department of Employment and Productivity plans to undertake in September 1968 should provide much additional information about salaries (as well as wages), including information about earnings in broad occupational groupings and estimates of average salary rates for salary earners who are on negotiated agreements. Also, under the provisions of the Companies Act 1967, which came into force in January 1968, the profit and loss accounts of all limited liability companies must contain particulars of directors' salaries (except where the total directors' emoluments are less than £7,500) and of all employees' earnings over £10,000.

59 In the meantime, there is a certain amount of information about salary movements available from private salary surveys, though these are usually very limited in scope and coverage. There is an impression that at the higher levels of salary in the private sector which are outside the scope of collective bargaining bonus payments based on profits and turnover and various kinds of fringe benefits form an increasingly important part of remuneration. The inadequacy of the available statistics, however, suggests that there is a need for official data to be collected on higher salary earnings, showing the extent of fringe benefits as well as distinguishing the various cash elements in total remuneration.

* According to the recently published report of the Ministry of Labour Manpower Research Unit on Occupational Changes 1951-1961, the proportion of administrative, clerical and technical occupations in total civil employment increased from 29 per cent in 1951 to 34 per cent in 1961 while the proportion of manual occupations declined correspondingly. Another recent report of the Manpower Research Unit has shown that while the total number of workers in Great Britain increased on the average by 0.5 per cent per annum between 1951 and 1961 office workers increased by 2.6 per cent per annum. Later figures covering the whole field of employment are not available but there is considerable evidence that this trend continued after 1961. In manufacturing industries alone the proportion of administrative, technical and clerical employees increased from 22.1 per cent in 1961 to 24.5 per cent, in a slightly smaller total, in 1967. Over the same period the financial, professional and scientific services increased their share of total employees in employment from 11.7 to 14.3 per cent.

† Mining and quarrying, construction, gas, electricity and water.

Non-employment incomes

Introduction

60 Non-employment incomes, which account for 31 per cent of total domestic incomes, comprise gross trading profits of companies, gross trading surpluses of public corporations, the gross trading surpluses of other public enterprises, and incomes from rent and self-employment (professional, other sole traders and partnerships, and farmers). This chapter first sets out the main factors affecting non-employment incomes in 1967, and then discusses in turn movements in the various self-employment incomes, rent and corporate incomes (both the public sector and company incomes). Finally, it examines other additions to purchasing power.

Factors affecting non-employment incomes in 1967

61 The general economic situation prevailing in 1967 has been described in the first chapter. For the business sector it was a year of considerable uncertainty. In addition to uncertainty about likely government fiscal and credit policies in the light of the economic situation, other developments contributing to the general climate of business opinion were the application to open negotiations to join the European Common Market which remained pending throughout the year, doubts as to what would happen in the field of prices and incomes after the end of severe restraint, unease about the country's continuing balance of payments difficulties and, following devaluation, uncertainty about its potential effects.

62 The principles of the standstill on prices and incomes introduced in July 1966, and of the six month severe restraint period to the end of June 1967 which followed the standstill, were expected to apply broadly to non-employment incomes as to employment incomes. From the start of the prices and incomes policy in April 1965 the government has looked to prices policy to ensure that increases in profits arose from increased efficiency, and they have said and reiterated that they would use their fiscal powers or other appropriate means to correct any excessive growth in aggregate profits, whether distributed or not, as compared with the growth of total wages and salaries, after allowing for short-term fluctuations.

63 For the period after 30 June 1967 broader criteria for price increases than had applied during the standstill and severe restraint periods were introduced. Companies were asked to exercise moderation in distribution of their profits consistent with the principles of the White Paper (Cmd 3235) and the principle of moderation was also to apply to self-employment incomes and charges.

64 The chief feature of the movement of non-employment incomes in 1967 was the recovery in gross trading profits of companies after their sharp fall in 1966. The greater part of the rise in 1967 compared with 1966 was accounted for by the effect of the timing of surr payments and refunds in the two years. Profits (net of stock appreciation) in 1967 were only 3.1 per cent above the level of 1965, and they have been growing more slowly than total domestic incomes over the whole

period since 1960, as have also aggregate self-employment incomes. Aggregate ordinary and preference dividends have risen slightly more than total domestic incomes between 1960 and 1967 but they have fallen in both the last two years.

Table 8 Growth of non-employment incomes in UK

	% changes per annum			Total
	1960 1965	1965 1966	1966 1967	1967 £ million
Self-employment incomes*	4.5	0.4†	3.6†	2,558†
Rent*	7.5	8.2	7.5	2,082
Public sector trading surpluses*	9.0	3.1	7.5	1,205
Gross trading profits of companies*	4.3	-4.9†	8.4†	4,688†
Dividends on ordinary and preference shares†	9.9	-0.5	-4.3	1,724
Other dividends and interest payments including public corporations‡	11.1	17.3	9.7	1,563
Total non-employment incomes*	5.4	-0.3†	6.9†	10,533†
Total domestic incomes*	6.4	4.2	4.5	33,798

* Before providing for depreciation but net of stock appreciation.

† Selective employment tax is included on a cash basis and refunds and premiums are allowed for when they are received.

‡ Dividends and interest payments are an allocation of total corporate income. They are not all incomes of individuals as part is received by the public sector, part goes overseas and part goes into life assurance and superannuation funds. The complete sources and allocation of company incomes (not including public enterprises) are shown in Tables 11 and 13.

Source: C&O

Self-employment incomes

65 The total incomes of the self-employed sector have been growing more slowly than domestic incomes as a whole for a number of years. During the period 1960-67 while total domestic incomes rose by about 50 per cent, total professional earnings increased by 38 per cent, and total incomes of sole traders and partnerships and farmers rose by only about 30 per cent. There are no precise figures for the numbers of people in the different categories of income earners included in this sector from which to calculate average earnings but official figures for the total number of employers and self-employed indicate that there was a slow decline between 1960 and 1967.* There is a need in addition, however, for figures that would enable the changes in total incomes of the self-employed groups shown in Table 9 to be related to changes in the numbers of people in these groups.

66 The total incomes of professional persons increased by 5.8 per cent between 1966 and 1967. This compares with an annual increase of 0.7 per cent between 1965 and 1966, and an average of 5.3 per cent from 1960 to 1965. There are no comparable figures available of the numbers in this category. It was suggested in last year's review that more information about some of the categories which

* The numbers of employees and self-employed are estimated by the Department of Employment and Productivity as 1,675,000 in June 1960 and 1,612,000 in June 1967—a decline of 3.8 per cent.

make up self-employment, particularly different professional groups, was desirable. In the meantime, while no new information about this sector has become available on a regular basis, the National Board for Prices and Incomes has thrown some further light on it in its examination of the professional earnings of solicitors.* The Board compared average incomes of solicitors, and their movement over time, with those of other professions, insofar as these could be estimated from various sources. They concluded that over the period, approximately 1956-66, the average increase in solicitors' earnings approximated to those of all wage-earners and salary earners and was lower than those of doctors but higher than those of dentists and architects in private practice.† Over this period a bigger increase had occurred in the earnings of solicitors employed in commerce and industry (whose mean earnings in the year to July 1967 were £3,545) than in those of principals in private practice (whose mean gross income in the year ending on average in October 1966 was £4,870).

67 There is no more detailed information about the movement in the earnings of professional persons in 1967. The NAPI has stated, however, that the continuous collection of statistics and information about solicitors' remuneration is desirable, and has recommended that statistics about professional earnings generally should be made available by the government, either by the publication of existing material or by the collection on a sample basis of the kind of statistics which the Board included in its report.

68 Farmers' incomes are largely influenced by the prices for farm produce determined at the annual agricultural price review, by changes in costs and in productivity, by the demand for their products, by the weather and by unexpected factors such as the recent epidemic of foot-and-mouth disease.

69 Total incomes of farmers (including stock appreciation) were 5.8 per cent higher in 1967 than in 1966 compared with an increase of 2.2 per cent between 1965 and 1966. The average increase in the years 1960-65 was 4.0 per cent.

70 Data on farmers' incomes is prepared and published in connection with the annual review.‡ According to this, actual farming net income in the farm year June 1967-May 1968 was forecast (as at mid-January 1968) to be £510 million, an increase of 3.8 per cent over 1966/67; the increase between 1965/66 and 1966/67 was 6.0 per cent. The figures for farmers' income in the National Income accounts which were quoted in para 69 are based on the annual review data but are on a calendar year basis and are before provision for depreciation. The White Paper on the annual review points out that as the number of full-time farm businesses continues to decline the average net income per farm will have improved by more than is suggested by the figures of net income for the whole of agriculture.

71 The net income figures prepared for the price review, quoted above, are from the 'Departmental' estimate which is built up from the statistics of income and expenditure for the whole 'national' farm. An alternative, 'raised sample'

* By a reference dated 9 February. Report No. 54, *Remuneration of Solicitors*, NAPI, February 1968. The Board carried out (i) an inquiry in June 1967 among a random sample of firms of solicitors into their remuneration based on results for the last accounting year and (ii) a survey in July 1967 of the earnings in the last twelve months of all solicitors employed in commerce or industry.

† See the NAPI report, Table A.

‡ Annual Review and Determination of Guarantees 1968 (Cmd 3558), March 1968

estimate, is also prepared for the annual review and included in the White Paper, based on a sample of farm accounts which are expanded to give an aggregate for all farms in the UK. Provisional figures for the 'raised sample' estimate show a decline of over 7 per cent in net farm income between 1965/66 and 1966/67, compared with the increase of 6.0 per cent for the same period shown by the 'Departmental' estimate (see previous paragraph). Figures are not available for 1967/68 from the 'raised sample' estimate. The White Paper says that there are a number of reasons why the levels of aggregate net income shown by the two estimates should vary but that it is difficult to make a quantitative estimate of the individual causes. In the case of the 1966/67 figures the White Paper says that the 'raised sample' estimate, based on accounts for the year ended about mid-February 1967, reflects certain additional costs arising from the late spring of 1966 but little of the benefit of better conditions early in 1967.

72 *Other sole traders and partnerships* is a diverse group of businesses and trading establishments, usually small in size but nevertheless accounting for about 57 per cent of all self-employment incomes—i.e. about £1500 millions. Unfortunately little can be said about their experience in detail. As a group this section's money income rose rather more slowly than employment incomes during the 1960s; it dropped slightly in 1966 but rose by about 1 per cent in 1967. There is no precise information about what has been happening to the numbers of people in this category. The effect of incorporation of businesses is to reduce the numbers but on the other hand there is believed to be some movement out of employment into self-employment. This is a further sector where more up-to-date statistics and detailed analysis seem to be called for.

Table 9 Self-employment incomes in UK

	% changes per annum			% of total
	1960 1965	1963 1966	1966 1967	self-employment income* 1967
Professional persons	5.3	0.7	5.8	18.7
Farmers	4.0	2.2	5.8	24.5
Other sole traders and partnerships	4.9	-0.3	1.0	56.8
Total self-employment income*	4.7	0.4	3.0	100.0
Total self-employment income†	4.5	0.4	3.6	97.8

* Before providing for depreciation and stock appreciation.

† Before providing for depreciation but net of stock appreciation.

Selective employment tax is included on a cash basis and refunds or premiums are allowed for when they are received.

Source: CBO

Rent

73 Income from rent* increased by 7.5 per cent between 1966 and 1967 compared with an increase of 8.2 per cent between 1965 and 1966. The overall annual increase in the years 1960 to 1965 was 7.5 per cent. Part of the annual increase is due to the increase in the number of houses and other buildings.

* This is defined as gross receipts from the ownership of land and buildings (including the imputed rent of owner-occupied dwelling houses and farms, of houses, provided rent-free by employers and of houses and non-trading property owned and occupied by local authorities) less actual expenditure by the owners on repairs and insurance.

74 Rent incomes are a composite item. They include incomes accruing to persons, including the imputed rent of owner-occupied dwellings, to companies and to local authorities. Table 10 shows the composition of rent income. The figure for the personal sector includes £687 million in 1966 for imputed rent of owner-occupied dwellings. Over the period 1961-66 the largest increases in rent incomes occurred in the personal and local authority sectors, and this was also the case between 1966 and 1967.

Table 10 Income from rent* by sector/ UK

	£ million		
	1961	1966	1967
Personal	687	1,041	1,123
Companies	168	199	205
Public corporations	28	45	48
Central government	101	97	93
Local authorities	356	604	673
Total income from rent	1,340	1,986	2,142

* Before depreciation

Source: CBO

75 The continuing strong rise in rent incomes has been due partly to the increase in rentals and partly to the rise in building programmes in the 1960s. Some indication of the increase in rents, as far as local authority housing is concerned, was provided in a recent report of the National Board for Prices and Incomes* which indicated that average weekly net rents of all local authority dwellings were estimated to be 10.1 per cent higher in the financial year 1967-68 than in 1966-67; and in 1966-67 they had been 9.5 per cent higher than in the previous year. Fixed investment in dwellings rose in every year in the 1960s in money terms and, save in 1966, in real terms. Over the period, the public sector's investment programme became relatively more important and in 1967 exceeded the private sector's investment in dwellings.

Corporate incomes

Public sector

76 The gross trading surpluses of public enterprises have been growing every year during the 1960s, and at a faster rate over the period 1960-67 than gross trading profits of companies. They grew by 7.5 per cent between 1966 and 1967, slightly less than company profits. More stringent financial controls over borrowing and operation, the Treasury's emphasis on target rates of return, and more economic pricing have contributed to this outcome. The public corporations account for nine tenths of public sector surpluses, and they have been the most rapidly growing part. Subsidies to those public corporations which have made losses have also been growing since 1960 but not at the same rate as the surpluses, and in 1967 they were about one sixth of total public corporation trading surpluses. The British Steel Corporation was included with the public

* Increase in Rents of Local Authority Housing, NBRP Report No. 62, April 1968. The figures quoted are based on a sample enquiry undertaken in January 1968 among local authorities in Great Britain.

corporations as from the end of July 1967 instead of the company sector but this is likely to have had only a small effect on the 1967 figures. Interest payments by the public corporations have also been increasing steadily but not so fast as their income; between 1966 and 1967 the increase was 2.3 per cent.

77 The other components of public sector trading surpluses are those of local authorities which have been growing slowly and increased by 2.7 per cent between 1966 and 1967; and the central government trading surplus which is a very small item.

Company incomes

Sources of company incomes

78 Gross trading profits, which include the profits of industrial, commercial and financial companies, make up about two thirds of company incomes and are the largest category of non-employment income. Profits are especially sensitive to changes in the level of economic activity. Unlike employment and self-employment incomes which have been growing continuously, though at varying rates, profits tend to rise sharply when output starts to rise and to fall when the growth of output is checked. (See Chart 5.) This is reflected in the movement of profits in 1966 and 1967, and in earlier periods (eg 1961 and 1962).

79 Gross trading profits had already started to fall in 1965, and the decline continued in the first half of 1966, presumably as the result of the pressure of rising costs on profit margins at a time when demand was already being restrained and when prices policy was beginning to operate. In the second half of 1966 the standstill checked the rise in labour costs but profits were further depressed by the incidence of SET; SET payments began to be made in September 1966 but no refunds or premiums were received in that year. Profits recovered in the first half of 1967 when companies received SET refunds and premiums as well as making payments and when labour costs per unit of output rose only slightly, but if the effect of sharply rising stock appreciation is excluded they levelled off in the second half of the year. The improvement in profit margins, especially in the first half of 1967, is indicated in the examination of price movements during the year in para 97. Profits, net of stock appreciation, were 8.4 per cent higher in 1967 as a whole than in 1966 but the rise is exaggerated by the different effect of SET on the two years' figures; this accounted for about three quarters of the increase.

80 In addition to gross trading profits, company incomes are made up of rent and non-trading income and income from abroad (see Table 11). Rent and non-trading income has risen continuously and rapidly during the 1960s, including 1966 and 1967, and it has been an increasing proportion of company income. The increase in this item has been due largely to the high level of interest rates, and the increased income from this source has accrued particularly to financial companies such as banks and building societies. Income from abroad also rose rapidly up to 1965 but it has declined since then, and did so especially steeply in 1967, probably largely from causes connected with the Middle East situation. The effect of devaluation, however, should be to increase income from this source in terms of sterling.

Appropriation of company incomes

81 Ordinary dividend payments, after their rapid growth (about 11 per cent per annum) in the period 1960-65, fell slightly in 1966, and then more sharply (by 4.5 per cent) between 1966 and 1967. It is difficult from the total figures for companies to trace the effect that prices and incomes policy may have had on

Table 11 Sources and growth of company income in UK

	<i>Per cent of total company income</i>		
	<i>1960-65</i>	<i>1966</i>	<i>1967</i>
Gross trading profits*	65.9	62.5	63.8
Rent and non-trading income	15.7	18.4	19.2
Income from abroad†	18.4	19.1	17.0
Total company income	100.0	100.0	100.0
	<i>Percentage changes per annum</i>		
	<i>1960</i>	<i>1965</i>	<i>1966</i>
	<i>1965</i>	<i>1966</i>	<i>1967</i>
Gross trading profits*	5.1	-5.0	5.8
Rent and non-trading income	7.8	9.7	8.1
Income from abroad†	8.0	-0.7	-7.8
Total company income	6.0	-1.8	3.6

* Before providing for depreciation and stock appreciation. Because of the inclusion of stock appreciation these figures differ from those in Table 8.

† After deducting depreciation allowances but before providing for stock appreciation.

Source: C&O

dividend payments in 1966 and 1967 because the quarterly movements in these two years (see Table 12) were distorted by the very high level of payments in the first quarter of 1966 before the coming into effect of the Corporation Tax and the correspondingly much lower levels in the remaining three quarters of the year. In the first half of 1967 ordinary dividend payments (seasonally adjusted) were still below the levels of the first half of 1965 but in the second half of the year they were closer to, though still below, the level of the second half of 1965. (These comparisons may be affected to some degree by changes in the seasonal pattern of payments.) It appears therefore that dividends were effectively restrained during the standstill and severe restraint periods, and while the level of dividend payments was higher in the six months after the end of severe restraint there was no marked upsurge.

Table 12 Ordinary dividend payments in UK/Seasonally adjusted/£ million

	<i>1965</i>	<i>1966</i>	<i>1967</i>
Quarter i	457	784	404
ii	372	290	365
iii	415	268	455
iv	446	343	386

Source: C&O

82 Dividend distributions are likely to be affected by cyclical fluctuations in profits, amongst other factors, and the decline in ordinary dividends in 1967 at a time when profits were recovering may in part have been due, with a time lag, to the fall in profits in 1966. Other factors may have been the fall in company income available for distribution in 1967, resulting from the rise in fixed claims—*ie*, taxes and fixed interest obligations; the influence of the prices and incomes policy, especially during the period of severe restraint; and the need of companies to retain more of their earnings after the relatively high dividend payments of recent years.

Table 13 Growth of company income distribution* in UK/Percentage changes per annum

	1960 1965	1965 1966	1966 1967
Ordinary dividends	10.6	-0.3	-4.5
Preferred dividends	1.6	-3.3	-2.6
Other interest payments, etc	13.2	20.0	13.4
UK taxes on income	-2.3	14.9	45.5†
Profits due abroad and taxes paid abroad	6.9	0.8	-3.3
Balance: undistributed income‡	4.6	-11.2	-2.9†
Total company income	6.0	-1.8	3.6

* Gross of depreciation provisions

† The changes in the system of investment incentives increased the tax charges on company income in 1966 and 1967. Investment grants, payments of which to companies began in 1967, are regarded as capital grants and do not appear in the table (see paras 84 and 85).

‡ Before providing for depreciation, stock appreciation and additions to reserves

Source: CSD

83 Preferred dividends also declined in both 1966 and 1967, after having grown very slowly in amount between 1960 and 1965, and they form now a very small proportion of the distribution of company income. The rapid growth of the proportion of company income going to the fixed interest sector ('other interest payments'* in Chart 9 and Table 13) has, however, continued, and these interest payments increased by 13.4 per cent between 1966 and 1967. The growth of these payments, both absolutely and as a proportion of company income, is explained partly by higher interest payments made by banks and building societies and partly by higher debenture payments, reflecting not only higher rates of interest but also a trend towards debenture financing. The effect of the Corporation Tax has been to make equity financing relatively more costly for companies compared with fixed interest obligations. Total distributions were a slightly lower proportion of company income in 1967 than in 1966.

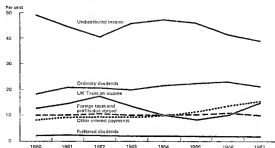
84 The proportion of company income paid in net UK taxes is shown in Chart 9 to have risen sharply in 1967; this results, however, largely from the fact that investment grants which replaced investment allowances in 1967 have been included in the national income accounts as capital transfers and have not been deducted from tax payments. Even allowing for this, taxes were higher both absolutely and as a proportion of company income in 1967 than they had been in 1965, though not so different from the levels of the early 1960s.

85 The proportion of company income which is undistributed (and which is the main source of their funds for investment) has been falling on balance during the 1960s, and it fell sharply in both 1966 and 1967; the fall in amount was 2.9 per cent in 1967. The investment grants were an additional source of capital funds to companies in 1967, and they more than compensated for the fall in undistributed income in that year. The benefit to industry from investment grants, however, was less than the value of investment allowances before the change from the former company tax system although the government's view is that this was balanced by the reduction in the marginal tax rate.

* These include debenture interest, interest on building society shares and deposits, co-operative society dividends and interest and other interest paid by banks, etc.

Chart 9 Company income

Percentage distribution of company income



Total company income



Source: CSO

Other additions to purchasing power

86 Realisations of savings also provide a source of money which can be used, in the same way as income, to purchase goods and services. Most realisations are made in the form of pension payments from insurance funds. Realisations of privately held investments are also made at times when market values are increasing so that the loss of capital through realisation and consumption can be offset by the increase in the value of remaining assets held.

87 Over the period 1960-65 there was very little change in the price index for industrial ordinary shares. * There was a small rise (0.8 per cent) between 1965

* Actuaries' Investment Index 1960-1962. Financial Times—Actuaries Index (500 shares) from 1962. (CSO, Financial Statistics)

and 1966 and then a rise of 6.8 per cent between 1966 and 1967. There had been a sharp fall in the index after July 1966 but this was followed by an increase throughout 1967 which continued in the early months of 1968. The increase from 1960 to 1967 was about 10 per cent but most of this came in the last year which saw an increase of 32.6 per cent from December 1966 to December 1967.

88 Gains of individuals are normally chargeable to the tax at the rate of 30 per cent. During 1967-68, the yield of capital gains tax was £15½ million. In view of the increase in share prices during 1967 and the first quarter of 1968, the tax is expected to produce £44 million in 1968-69* when most of the tax chargeable by reason of realisations in 1967-68 will be paid. The rise in the values of ordinary shares is not an addition to company profits but a reflection of those profits in market values.

* Financial Statement 1968-69

Prices

Introduction and summary

89 The rise in the general price level during 1967 was 2.0 per cent. This was well below the 1960-66 average of 3.1 per cent and much less than the increases during 1965 and 1966, which were 4.5 per cent and 3.8 per cent respectively.

90 There was a slow rise in the price level in the first half of the year, the period of severe restraint. Prices rose faster in the second half of the year, but still not as fast as the average for recent years.

Table 14 General price level in UK/Per cent changes, seasonally adjusted

1960 iv-1966 iv*	1966 iv-1967 iv	1966 iv-1967 ii	1967 ii-1967 iv
3.1	2.0	0.7	1.3

* Average annual rate

Source: CSO

91 Retail prices rose by 2.1 per cent during 1967. Most of this increase occurred in the first half of the year, partly due to seasonal factors. This increase was much less than the average in recent years.

Table 15 Main price indicators in UK/Percentage changes

	1960 iv 1966 iv*	1966 iv 1967 iv	1966 iv 1967 ii	1967 ii 1967 iv
Retail price index	3.7	2.1	1.4	0.7
Wholesale manufactures (total sales)	2.7	2.1	0.4	1.6
Exports				
Unit value index (all goods)†	2.0	2.4	0.6	1.8
Implied price index (goods and services)†	1.7	3.1	-0.8	4.0
Imports				
Unit value index (all goods)†	1.1	3.9	-1.3	5.2
Implied price index (goods and services)†	1.2	4.1	0.0	4.1

* Average annual rate

† The unit value indices measure the change in the aggregate value of a fixed representative selection of imports and exports.

The 'implied' price indices are calculated by the fraction:

$$\frac{\text{Imports (or exports) at current prices}}{\text{Imports (or exports) at 1958 prices}}$$

Neither index is a wholly satisfactory measure of changes in export or import prices particularly because of weighting problems and the changing pattern of trade. The figure for the 'services' component in the 'implied' index is especially liable to error and the figure should be regarded as only approximate. Differences between the two indices arise because of different coverage and weighting methods.

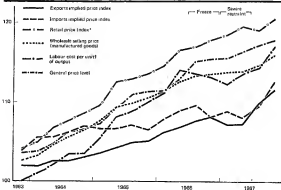
Sources: *NET*, Board of Trade, CSO

92 *Wholesale prices of manufactured goods* also rose less than in recent years, but most of the rise of 2.1 per cent was in the second half of the year.

93 *Export prices* rose by about 3 per cent during 1967, although they were little changed in the first half of the year. Of two price indicators for goods, one rose more than the 1960-66 average, the other less, but the price of services rose by almost 10 per cent in the second half of the year, compared to a 1960-66 average rise of about 1 per cent a year.

94 *Import prices* fell in the first half of 1967 but began rising again in the third quarter and then rose sharply following devaluation. The increase during the year was about 4 per cent. As the movement in the unit value index from October 1966 to October 1967 was in line with past trends, devaluation seems to have had a swift effect on import prices.

Chart 10 Main price and cost indicators 1962=100



Sources: CSO, DEP, BoT

*January 1962=100

†Employment incomes per unit of total fixed expenditure (seasonally adjusted)

The general price level

95 An index of the general price level can be obtained by dividing total final expenditure in the UK (TFE) at current prices by TFE adjusted to constant 1958 prices. Price changes can then be calculated from this index.

96 The contribution of each component of TFE to the overall price change can also be calculated.* If the percentage increase in value of any component is greater than the percentage increase in TFE, its cost per unit of TFE goes up, and the general price level rises accordingly. The price level will rise by the component's percentage increase in cost per unit of TFE multiplied by its weight in TFE. For example, if the cost per unit of TFE goes up by 2 per cent and the component is 10 per cent of TFE, the general price level will rise by 0.2 per cent.

97 Pressure on the general price level in the first half of 1967 came from an upsurge in imports and increased profit margins. Imports rose strongly after the

* The method of calculation is explained in the Appendix to last year's review.

removal of the import surcharge, in spite of there being no consequent reduction in import prices and of the low rate of economic growth in the period. The cost of imports per unit of TFE rose by more than 8 per cent during this period. Profits recovered with the payment of SET refunds following a fall in the second half of 1966.

98 Profits continued to rise sharply during the second half of 1967, profits per unit of TFE rising by a further 7 per cent in this period. Import costs per unit of TFE also continued to rise, with import prices rising sharply.

99 Employment incomes, which account for about half of TFE, had a negligible influence on the general price level in the period of severe restraint, when costs per unit of TFE were virtually unchanged. These costs rose by more than 3 per cent in the second half of 1967, however, and because of the weight of this component of TFE they were the major factor in increasing the general price level in this period. The first half movement compares favourably with the previous three years, when, discounting the deflationary tax increases in July 1966, employment incomes had a disproportionately high inflationary influence on the general price level.

100 Indirect taxes were unchanged in 1967 and fell per unit of TFE, thus helping to moderate the increase in the general price level.

Table 16 Composition of changes in general price level in UK* /Seasonally adjusted

	1964 iv	1965 iv	1966 iv	1966 iv	1967 ii	Percentage of TFE 1967 iv
	1965 iv	1966 iv	1967 iv	1967 ii	1967 iv	
Employment incomes	3.2	1.4	1.7	0.1	1.6	50.7
Profits**	0.1	-1.4	2.0	1.0	0.9	13.7
Rent and self employment	0.6	0.2	0.4	0.1	0.3	10.2
Less stock appreciation	0.1	0.5	-1.2	0.6	-1.8	-1.6
Residual error†	-0.5	1.0	-1.7	-1.0	-0.6	-1.0
GDP‡	3.4	1.7	1.2	0.8	0.4	72.0
Imports	0.2	-0.5	2.0	1.4	0.7	16.8
Net expenditure taxes‡	0.8	2.6	-1.3	-1.5	0.3	11.2
TFE price index§	4.5	3.8	2.0	0.7	1.3	100.0

* Proportion of percentage change in TFE price index attributable to changes in cost per unit of TFE of components of TFE.

** Gross trading profits of companies, gross trading surpluses of public corporations and gross profits of public enterprises.

† Portion of price changes in GDP which cannot be allocated to other heads.

‡ Taxes on expenditure less subsidies.

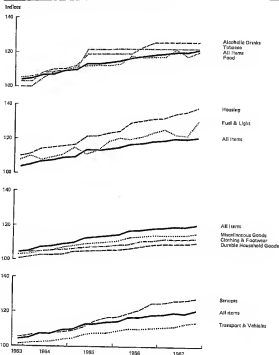
§ Figures do not always add precisely to these totals because of rounding errors.

Source: CSO

Retail prices

101 The retail price index is based on household expenditure determined from a sample survey representative of practically all households with wage earners or small or medium salary earners. The index rose by 1.4 per cent in the first half of 1967 and by 0.7 per cent in the second half of the year. Besides being much less than usual, the rise during the year was the same as that in the price index for the output of manufacturing industry and less than the rise in the import price index, although it usually shows a much greater rise than do the other two indices.

Chart 11 Retail prices January 1962=100



Source: DEP

102 About half of the increase in the first half of the year was due to normal seasonal movements, increases in the price of certain foodstuffs being partly offset by a seasonal fall in the price of coal. Adjusting the figures accordingly gives an increase of 0.7 per cent in the first half of the year and of 1.4 per cent in the second half. This pattern of movement accords with movements in the general price level and wholesale selling prices.

103 Breaking down the index into sectors shows that the main price rises during 1967 came in the housing index, which has risen nearly 40 per cent in six years, and the fuel and light index, which has risen by almost a third in the same period. Both rose by more than 5 per cent. A number of factors have affected the housing index. Local authorities have increased rates to cover high expenditure and many have introduced economic rents with rebates only for

tenants in need. Land prices and construction costs have risen. There has been high demand for private accommodation in some areas, coupled with some decontrol of controlled rents. The fuel and light index rose largely because of higher electricity charges to cover large capital investment programmes, increased oil prices and more stringent government financial requirements for the nationalised industries.

104 The transport and vehicles index, which usually rises less than average, showed the next biggest rise at 3.3 per cent. Food prices rose by only 1.8 per cent, but the rise of 1.6 per cent from November to December was well above the normal movement between these two months. This was due to the impact of the outbreak of foot and mouth disease rather than the immediate effect of devaluation.

Table 17 Retail prices in UK

	1967 weights	Percentage changes					Index	
		1964	1965	1966	1966	1967	1967	1967
		<i>iv</i>	<i>iv</i>	<i>iv</i>	<i>iv</i>	<i>iv</i>	<i>iv</i>	<i>iv</i> *
		1965	1966	1967	1967	1967		
		<i>iv</i>	<i>iv</i>	<i>iv</i>	<i>iv</i>	<i>iv</i>		
All items	1000	4.6	3.8	2.1	1.4	0.7	120.4	
Food	293	2.9	3.6	1.8	3.6	-1.7	118.4	
Non-food items	707	5.4	3.9	2.3	0.6	1.7	121.3	
Alcoholic drink	67	8.1	5.4	-0.2	0.0	-0.2	125.2	
Tobacco	72	10.3	0.0	0.0	0.0	0.0	120.8	
Housing	118	6.2	6.3	5.2	2.4	2.8	137.5	
Fuel and light	62	6.1	4.5	5.2	-1.5	6.7	129.9	
Durable household goods	59	2.4	3.2	0.5	0.2	0.3	109.3	
Clothing and footwear	92	1.9	3.2	0.7	0.3	0.3	112.0	
Transport and vehicles	118	4.1	2.3	3.3	1.0	2.2	113.8	
Miscellaneous goods	61	2.6	3.6	1.1	-0.5	1.6	114.9	
Services	58	7.2	7.5	2.4	0.9	1.6	127.8	

* January 1962=100

Source: DRP

Wholesale prices

105 The rise of about 2 per cent in wholesale prices of the output of manufacturing industry during 1967 was below the 1960-66 average. Prices rose only slightly in the first half of the year, being virtually unchanged in the home market, then rose by more than 1½ per cent in the second half of the year. Most of this rise came in the last quarter.

106 The small rise in output prices in the first half of 1967 was out of line with costs, which fell in that period. Wage costs per unit of output fell by about 1½ per cent and the prices of basic materials and fuel used and of items of fixed capital expenditure both fell by about 1½ per cent. In the second half of the year, however, there were sharp rises in the prices of basic materials and fuel and a lesser rise in wage costs. Over the year, output prices seem to have risen more than costs, and profit margins presumably rose. Wage costs per unit of output ended the year nearly 1 per cent down, which compared with an average rise of about 2½ per cent a year in 1960-66. This was partly because output per operative hour rose by more than 5 per cent during 1967, faster than the 1960-66 average of about 4 per cent.

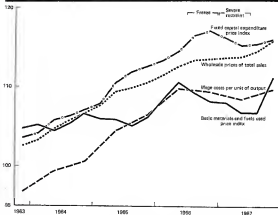
Table 18 Selling prices and costs in manufacturing industry in UK
Percentage changes

	1960 <i>iv</i> 1966 <i>iv</i> *	1966 <i>iv</i> 1967 <i>iv</i>	1966 <i>iv</i> 1967 <i>ii</i>	1967 <i>ii</i> 1967 <i>iv</i>
All manufactures: total sales price index	2.7	2.1	0.4	1.6
Wage costs per unit of output	2.6	-0.8	-1.5	0.7
Basic materials and fuel used	1.5	3.3	-1.4	4.7
Fixed capital expenditure price index	3.2	-1.0	-1.5	0.6

* Average annual rate

Sources: BOT, CSO

Chart 12 Selling prices and costs in manufacturing industry 1962=100

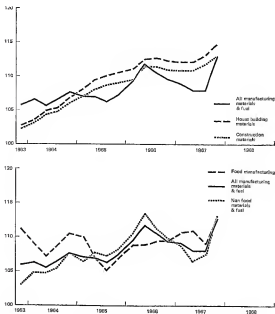


Sources: BOT, CSO

107 The costs of labour and materials were rising fast towards the end of the year, however. The price index for basic materials and fuel was just below the December 1966 figure in October 1967, then rose by about 8 per cent to December, largely because of devaluation. A more detailed breakdown shows that the price of crude petroleum soared after the closure of the Suez Canal and the stoppage of oil supplies from Arab countries in June. Supplies from Nigeria were also cut off because of the civil war there. The price rose because of increased shipping and insurance rates, longer hauls and recourse to more expensive non-Arab and non-Nigerian sources. There were also big price rises for non-ferrous metals, oil seeds and textile materials other than wool. The price of ferrous metals and raw wool fell, however, while other materials and fuel changed to a less marked extent.

108 The industries particularly affected by rises in the price of materials and fuel were food manufacturing, electrical machinery and chemicals and allied, but by the end of the year costs to all industries had increased markedly. This is shown in the last column of Table 19. In this table, the price index for all manufacturing industry as a whole relates solely to purchases from outside the manufacturing sector. It is based upon price movements of mostly imported materials, plus some indigenous crude materials. The sector price indices for individual industries, by contrast, include prices of many semi-manufactures or intermediate products purchased from elsewhere within the manufacturing sector. The prices of these intermediate products reflect some home production costs in addition to the cost of basic materials, and rose less than the prices of imported materials and fuel.

Chart 13 Prices of materials and fuel bought by broad sectors of industry
1962=100



Source: BofT

Table 19 Prices of basic materials and fuel purchased by industry sectors
Percentage changes

	1964 1965	1965 1966	1966 1967	Dec 1966 Dec 1967
All manufacturing industries	0.5	3.2	-0.7	7.6
Basic materials	0.1	2.6	-1.3	9.0
Fuel	2.7	5.9	2.3	1.6
Manufacturing other than food, drink and tobacco	1.8	3.5	-1.8	8.5
Basic materials only	1.7	2.9	-3.0	10.6
Food manufacturing	-1.5	1.7	1.5	6.3
Chemicals and allied	4.3	0.1	-0.2	4.7
Mechanical engineering	3.8	6.3	-0.8	3.5
Electrical machinery	5.0	9.0	-1.6	5.1
Textiles	-4.3	2.8	-3.5	3.5
Timber	4.3	1.7	0.8	4.0
Paper	3.9	-0.2	-0.1	3.9
Construction (materials only)	3.6	2.5	0.7	2.8
Housebuilding (materials only)	4.2	2.4	0.8	3.3

Source: BOT

Table 20 Prices of output of broad sectors of industry/Percentage changes

	1964 1965	1965 1966	1966 1967	Dec 1966 Dec 1967
<i>Home market sales only</i>				
All manufactured products	4.6	2.8	1.3	1.8
Industries other than food, drink and tobacco	3.8	2.7	1.1	2.2
Food manufacturing industries	2.1	2.2	1.9	2.0
Chemicals and allied industries	2.4	0.5	0.5	1.9
Iron and steel industries	1.7	3.1	1.0	0.4
Engineering and allied industries	3.5	3.6	1.0	2.3
Textile industries other than clothing	2.0	1.7	-0.7	0.5
Clothing and footwear industries	2.4	3.3	1.1	0.4
Timber industries	4.4	2.4	0.3	1.1
Paper industries	3.8	1.4	0.2	-0.2
New construction	3.9	4.5	1.4	2.1*
<i>Total sales</i>				
All manufactured products	4.2	3.0	1.6	2.7
Industries other than food, drink and tobacco	3.6	3.1	1.6	3.2
Chemicals and allied industries	2.6	0.8	0.6	2.2
Iron and steel industries	1.8	2.8	1.0	0.9
Engineering and allied industries	3.4	3.9	2.0	3.2
Textile industries other than clothing	1.4	1.8	-0.4	0.4

* 1966iv to 1967iv

Source: BOT

109 The wholesale selling prices for the products of most manufacturing industries remained fairly steady or fell slightly in the period of severe restraint then rose in the second half of the year. The largest rises came in the engineering and allied industries, including vehicles, which account for over 40 per cent of home market sales by UK manufactures and for more than half of manufactured exports. Home selling prices in this sector rose by 2.3 per cent by the end of the year, and prices of total sales rose by 3.2 per cent.

110 Thus the prices and incomes policies in force in 1967 seem to have had some success in deferring increases in costs and output prices for manufacturing industry, and in reducing the increases which eventually took place, although both wage costs and output prices rose sharply towards the end of the year. It must be borne in mind, however, that 1967 was a year of low demand pressure, which would tend to moderate increases in domestic costs and prices. The main pressure on prices came from increases in the price of imported raw materials and fuels, which are mainly outside the control of the UK government and industry.

Export prices

111 There are two relevant official indices which may give somewhat different results due to differences in weighting. One is the unit value index and the other the C50 implied price index.

112 Unit values of manufactured exports rose by about 1 per cent in the first half of 1967, which was a little below the average rate of increase for 1960-66. They increased rather faster in the second half of the year, rising by a further 2 per cent to make the rise during the whole year larger than average. The unit value index for exports of all goods, including non-manufactures, rose by only $\frac{1}{2}$ per cent in the first half of the year, again below average, but also rose by a further 2 per cent in the second half of 1967.

113 The fastest rise during 1967 came in the unit values of machinery and transport equipment, accounting for more than 40 per cent of goods exported, which rose by about $3\frac{1}{2}$ per cent. The unit values of metal goods rose by about $2\frac{1}{2}$ per cent, while unit values in other sectors rose more slowly or were unchanged.

114 The implied price index for exports of all goods fell by about $\frac{1}{2}$ per cent in the first half of 1967, then rose by about 2 per cent in the second half. This is a little less than the 1960-66 average of about 2 per cent per year.

115 The implied price index for services rose by more than $8\frac{1}{2}$ per cent during 1967. The index fell slightly in the first five months of the year, then rose sharply when the Middle East War and the closure of the Suez Canal led to increased shipping and insurance rates. International rate-fixing for shipping and aircraft fares led to further increases in sterling prices after devaluation. This sharp upward movement is in marked contrast to the 1960-66 average rise of only about 1 per cent.

116 According to figures published by the National Institute for Economic and Social Research, UK export prices had risen in 1967 by more than those of our major competitors up to the time of devaluation. Japanese prices were little changed over the year, and those of France, Germany, and the US may have fallen, but Italian prices appear to have risen slightly.

Table 21 Export unit values, prices, and terms of trade in UK
Percentage changes

	1961 weights	1964 1963	1965 1966	1966 1967	Dec 1966 Dec 1967
<i>Unit value index</i>					
Chemicals	86	3	2	0	2
Textiles	65	2	2	0	-2
Metals	123	7	5	1	3
Machinery and transport equipment	428	3	4	4	3
Other manufactures	141	3	5	3	3
All manufactures	843	3½	3½	2½	3
Non-manufactures	125	-3	0	-3	0
All goods	1000	2½	3½	1½	2½
<i>Implied price index</i>					
Goods		2.1	3.2	1.0	1.4*
Services		1.6	1.1	3.7	8.7*
All exports		1.9	2.7	1.5	3.1*
Terms of trade†		2½	1½	1½	-4

* 1966iv to 1967iv

† A negative sign indicates a worsening of the terms of trade, i.e. that export prices rose by less, or fell by more, than import prices.

Source: BOI, CBO

Table 22 Export prices of manufactures of leading exporting countries
1958=100

	1966	1967	1966 iv	1967 ii	1967 iv
UK	117	(118)	118	119	(114)
USA	109		110	107	
West Germany	112	(112)	113	112	(112)
France	106	(106)	108	106	(106)
Italy	94	(94)	94	94	(95)
Japan	91	(90)	90	(90)	(90)
All countries	108	(109)	109	109	(109)

Source: National Institute of Economic and Social Research (figures in brackets are provisional)

Productivity

Introduction

117 The trend of national productivity is of key importance in the economic growth of the country and in the improvement of our living standards. It is also vital to the discussion of wage movements and their relation to price stability, and to the cost position of industry in relation to that of our principal competitors. It is also the essential ingredient in making judgments about the likely rate of future growth in productive potential on which a faster growth of output depends.

118 This chapter summarizes the main data relating to the improvement of national productivity in 1967 and also changes in the manufacturing sector.

National productivity

119 The growth in national productivity may be defined as the change in gross national (or domestic) product at constant prices per person employed. It reflects improvements in the efficiency of labour and management, growth in capital investment (net of obsolescence) and technological change.

120 There are some difficulties in measuring even this relatively basic concept because of the different ways in which gross national product can be calculated, *ie* on output, expenditure or income bases. Moreover, the estimation of past trends is additionally complicated by the need to eliminate cyclical fluctuations. The most satisfactory measure of GDP is an average of the three possible bases of calculation—sometimes referred to as the 'compromise method'. However, since we are here particularly interested also in productivity in manufacturing industry, for which only an output measure is available, the output basis for GDP as a whole is used in the following text and tables. National productivity measured in this way is estimated to have risen between 1966 and 1967 by about 2.6 per cent. As is shown in Table 23 and Chart 14, this rate of increase is substantially higher than that for the previous year and it is also about the same as the annual average

Table 23 Output, employment and productivity in UK/Percentage changes, seasonally adjusted

	1960 1965*	1965 1966	1966 1967	1966 2nd half 1967 1st half	1967 1st half 1967 2nd half
<i>Total economy</i>					
Output	3.2	1.6	1.0	0.3	1.6
Employment	0.7	0.1	-1.5	-1.6	0.0
Output per employed person	2.5	1.3	2.6	1.9	1.6
<i>Manufacturing</i>					
Output	3.5	1.3	-1.1	-0.8	1.1
Employment	0.3	-0.2	-2.9	-2.0	-1.0
Output per employed person	3.2	1.6	1.9	1.2	2.1

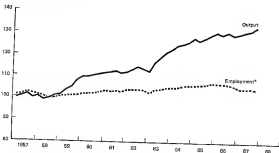
* Average annual rate

Sources: CIO, DEF

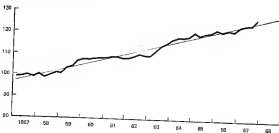
rate achieved over the period 1960-65. This rise in productivity in 1967 was achieved at a time of a very slow growth in output and therefore, while it was only in line with the recent trend, it can generally be regarded as high for this particular phase of the cycle (see for example the trend over the years 1960-62 in Chart 14). Caution is needed, however, in interpreting the estimate of the improvement in productivity achieved in 1967 since it was largely influenced by essentially short-term factors such as the unusually rapid fall in employment which may also have involved the temporary unemployment of the less skilled, the earlier retirement of older workers and the departure from the labour force of many part-time workers, especially married women, as a result of the introduction of SET combined with the more general effects of the government's deflationary policies.

Chart 14 Output, employment and productivity (whole economy)
Seasonally adjusted 1958=100

Output and employment



Output per employed person



Sources: CSO, DRP

*The fourth quarter 1967 employment index is a NEDO estimate.

Note: Output is GDP at constant factor cost (output method). Employment is total labour force including armed forces but excluding wholly unemployed and temporarily stopped.

121 At the same time, the improvement in productivity during 1967 may also reflect a more fundamental change which could have continuing beneficial long-term effects. Although the statistical evidence is inconclusive there are some grounds for believing that the rate of growth of productivity in the early 1960s may have been faster than in the late 1950s, and the intensification of policies for improved industrial efficiency in recent years could have contributed to continuing this acceleration. Moreover, these policies have recently been operating in a situation of slowly rising output, and as output grows faster in the immediate future, a further improvement may be anticipated from the better utilisation of existing capacity and additions to the capital stock from past investment.

Productivity in manufacturing

122 The rate of growth in output per head in manufacturing industry in 1967 appears to have been somewhat lower than in the economy as a whole: 1.9 per cent compared with 2.6 per cent. Generally speaking the table shows that manufacturing output, employment and productivity have suffered more during the restraints of the past two years than the rest of the economy: before 1966 the rate of growth in this sector exceeded that of the economy as a whole. The reason for this is a complex mixture of falling output in manufacturing while GDP as a whole was rising, and a fall in employment only half as great in the economy as a whole as in the manufacturing sector. At the same time, however, there are also difficulties in the accurate measurement of employment in the past two years, due to revisions in the official estimates principally for reasons connected with SET. The manufacturing labour force, for example, has been increased by about 1 per cent partly through reclassifications of some establishments on account of SET, and since precisely comparable output figures are not available the effect has been that the 1967 productivity increase for manufacturing is slightly overstated, though for the economy as a whole the figure is correct.

123 Unfortunately these revisions make it very difficult to give any recent figures for changes in output per head in major sectors of the economy, other than manufacturing. In construction, although both reclassifications and some substitution of self employed for employees have broken the continuity of the employment figures, there appears to have been a noticeable increase in output per head. Some of the same factors may apply to agriculture, though the fairly large apparent gain in productivity here during 1967 is not without precedent, and could well be a fairly accurate measure. The growth of output per head in mining and quarrying has also been above the average for the economy as a whole for some years, particularly as a result of increased mechanisation and the closing of uneconomic pits in the coal industry. In the transport and communications group there also appears to have been a continuing increase resulting from technical improvements and the reduction of manpower on the railways.

124 For manufacturing, figures for output per operative hour are available as well as those for output per man year. The annual output per man figures are useful for inter-industry and inter-sectoral comparisons but the output per operative hour figures provide a better indication of real productivity changes, *ie* making allowance for reductions in the average working week and longer holidays.

125 Table 24 shows manufacturing output per operative hour in comparable periods to those used in Table 23 for output per employed person, while Chart 16 shows the trend over a longer span of time. Annual changes in output per operative hour have been remarkably stable over the past 7 to 8 years and did not apparently suffer the same drop as output per head in 1966 and 1967.

Table 24 Output per operative hour in manufacturing in UK/Percentage changes, seasonally adjusted

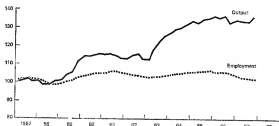
1960	1965	1966	1966 2nd half	1967 1st half
1965*	1966	1967	1967 1st half	1967 2nd half
4.3	4.0	4.1	2.9	2.1

* Average annual rate

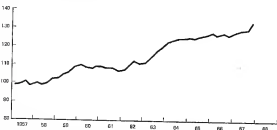
Source: CSO

Chart 15 Output, employment and productivity (manufacturing industry)
Seasonally adjusted 1958=100

Output and employment



Output per employed person

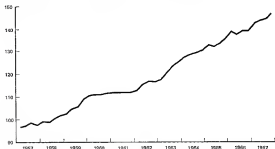


Sources: CSO, DEP

126 Up to the middle of 1966 average weekly hours worked were falling while output rose by some 3 per cent a year, but after this no further decline occurred, although output per operative hour continued to rise strongly. The shorter average working week may have played some part, together with the decline in

employment, but another factor is the built-in increase in output per operative hour compared with total output per employed person arising from the changing structure of the labour force and in particular a fall in the proportion of operatives and the transfer of workers into the technical, administrative and clerical grades. This shift is part of the pattern of technological progress, and of course it also means an increase in the fixed capital available to each operative. It is difficult to make an accurate estimate of the extent of this change in structure but it seems that the trend in the proportion of operatives in the manufacturing labour force has been consistently downward by between 0.5 and 1 per cent a year. Between 1966 and 1967 the drop was about 1.5 per cent.

Chart 16 Output per operative hour (manufacturing industry)
Seasonally adjusted 1958=100



Source: CSO

127 There has been no apparent slowing down in the growth of productivity on this measure during 1967 as a whole, due to cyclical factors, but expanding output in 1968 will show whether these gains have been maintained. The shakedown of surplus labour and the rationalisation that have been taking place in industry, along with the development of policies and propaganda for encouraging productivity, all suggest that some lasting improvement may well have been made. Apart from the effect of improvements in labour utilisation, the underlying trend of productivity improvement has been maintained both through investment in new capital and rationalisation in the use of the existing capital stock and through the underlying rate of technical progress.

128 In 1968 the increased emphasis which the prices and incomes policy places on productivity should be a further factor in maintaining and improving performance. In all the phases of incomes policy since the first White Paper in April 1965, except for the standstill period in the second half of 1966, exceptional pay increases above the norm and now above the ceiling have been allowed where the workers concerned make a direct contribution towards increasing productivity in the particular firm or industry, for example, by accepting more exacting work or a major change in working practices. The National Board for